

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-10 FRB-03 INR-10 IO-13 NEA-10 NSAE-00 USIA-06
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 NSC-05 STR-07 XMB-02 DODE-00 PM-05
H-01 L-03 PA-01 /129 W
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FM AMEMBASSY PARIS
TO SECSTATE WASHDC 7946
INFO ALL OECD CAPITALS

C O N F I D E N T I A L SECTION 01 OF 02 PARIS 07428

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USEEC

PASS: WHITE HOUSE FOR CEA CHAIRMAN SCHULTZE AND SHAFER;
TREASURY FOR WIDMAN; FRB FOR ETTIN

E.O. 11652: GDS
TAGS: OECD, ECON, EFIN
SUBJECT: ECONOMIC POLICY COMMITTEE FEBRUARY 27-28:
CHAIRMAN'S SUMMARY

1. AT MORNING SESSION OF SECOND DAY OF MEETING (FEBRU-
ARY 28), CEA CHAIRMAN SCHULTZE, NEWLY-ELECTED CHAIRMAN
OF THE ECONOMIC POLICY COMMITTEE (EPC) GAVE ORAL SUMMARY
OF RESULTS FIRST DAY'S DISCUSSION ON GROWTH STRATEGY AND
POLICY CONSTRAINTS. THE ENSUING DISCUSSION DID NOT SUB-
STANTIVELY ALTER THE GENERAL THRUST OF THIS SUMMARY,
WHICH IS TRANSMITTED BELOW, BASED ON NOTES LEFT BY
CHAIRMAN SCHULTZE. SINCE THIS IS NOT A VERBATIM TRAN-
SCRIPT, NOR AN OFFICIAL DOCUMENT, IT SHOULD NOT BE
RELEASED, AS SUCH, EVEN TO OFFICIAL FOREIGN CONTACTS
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WITHOUT SPECIFIC AUTHORIZATION BY CHAIRMAN SCHULTZE.
HOWEVER, PARAGRAPHS 2-6 (MARKED LOU) WHICH WERE USED --
(AGAIN ORALLY) -- IN SCHULTZE'S STATEMENT AT THE PRESS
CONFERENCE ON FEBRUARY 28 CAN BE DRAWN ON FREELY.

2. BEGIN LOU. CHAIRMAN'S ORAL SUMMATION. I THINK
THERE WAS GENERAL AGREEMENT ON THE PART OF SPEAKERS

THAT THE ECONOMIC SITUATION IN WHICH WE NOW FIND OURSELVES, THE SUCCESS OR AT LEAST PARTIAL SUCCESS OF STABILISATION MEASURES THAT HAVE BEEN TAKEN BY A NUMBER OF COUNTRIES, THE SLOWER THAN EXPECTED GROWTH IN 1977 AND THE REDUCTION IN INFLATION IN OECD COUNTRIES, ALL THOSE FACTORS NOW MAKE POSSIBLE, AND INDEED CALL FOR, A CONCERTED EFFORT TOWARDS GREATER ECONOMIC EXPANSION IN THE OECD AREA AS A WHOLE. AN EXPANSION THAT COULD BE UNDERTAKEN WHILE STILL CONTROLLING INFLATION.

3. IN SUCH A CONCERTED EFFORT, THOSE COUNTRIES IN A STRONG INTERNAL POSITION COULD EXPAND AT A MODERATE BUT STILL SIGNIFICANT PACE. IN THE CONTEXT OF A CONCERTED EFFORT ON THE PART OF OECD COUNTRIES A NUMBER OF COUNTRIES -- WHICH ONE OF THE DELEGATES SO FELICITOUSLY LABELLED THE CONVALESCENT COUNTRIES, AND WHICH UNTIL RECENTLY HAVE BEEN NARROWLY CONSTRAINED BY THE NECESSITY TO TAKE STABILISATION MEASURES -- ARE NOW IN A POSITION TO INCREASE THEIR ECONOMIC GROWTH BY LESSER BUT STILL SIGNIFICANT AMOUNTS THAN THE STRONGER COUNTRIES. AND, FINALLY, WITHIN THIS CONCERTED EFFORT THERE ARE STILL SOME COUNTRIES WHOSE INTERNAL STABILISATION REQUIREMENTS WON'T ALLOW A STIMULATION OF GROWTH BUT WHOSE ECONOMIES WOULD BENEFIT SIGNIFICANTLY FROM SUCH CONCERTED EFFORTS.

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4. IN DISCUSSING THIS AND IN PARTICULAR IN DISCUSSING THE CONSTRAINTS ON ECONOMIC GROWTH, IT APPEARED FROM THE DISCUSSION YESTERDAY THAT THERE IS A TWO-WAY RELATIONSHIP BETWEEN THE CONSTRAINTS ON GROWTH AND THE POLICY OF CONCERTED ACTION. ON THE ONE HAND, SOME LIMITED BUT STILL IMPORTANT EASING OF INTERNAL CONSTRAINTS IN THE CONVALESCENT COUNTRIES WOULD PERMIT THOSE COUNTRIES TO JOIN IN A CONCERTED EFFORT WHILE STILL PURSUING THEIR INTERNAL ADJUSTMENT POLICIES. IN OTHER WORDS, THE EASING OF SOME CONSTRAINTS MAKES CONCERTED EFFORTS POSSIBLE. LOOKED AT FROM ANOTHER SIDE, EXTERNAL CONSTRAINTS IN THE FORM OF BALANCE OF PAYMENTS AND EXCHANGE RATE CONSIDERATION WOULD MAKE IT DIFFICULT FOR MANY COUNTRIES TO EXPAND EXCEPT IN THE CONTEXT OF A COLLECTIVE EFFORT. SO THE EASING OF SOME CONSTRAINTS MAKES A COLLECTIVE EFFORT POSSIBLE AND A COLLECTIVE EFFORT ON THE OTHER HAND WILL EASE OTHER CONSTRAINTS.

5. THROUGH A CONCERTED EFFORT THERE ARE STILL ADDI-

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INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08

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TIONAL CONSTRAINTS ON GROWTH WHICH COULD BE EASED IN ALL THREE TIERS OF COUNTRIES, THE STRONG, THE CONVALESCENT AND THOSE WHO STILL FACE SUBSTANTIAL INTERNAL CONSTRAINTS. FOR EXAMPLE, AS SEVERAL DELEGATES MENTIONED, BUDGET CONSTRAINTS WOULD BE EASED IN A CONCERTED EFFORT, SINCE STRONGER GROWTH BY THE OECD AS A WHOLE WOULD REDUCE THE BUDGET DEFICITS REQUIRED BY EACH COUNTRY TO ACHIEVE ANY GIVEN RATE OF GROWTH. WHERE BUDGET DEFICITS IN PARTICULAR ARE A POLITICAL CONSTRAINT, PROBLEMS WOULD BE EASED. SIMILARLY, A CONCERTED EFFORT WOULD TEND TO RAISE THE PROFITABILITY OF INVESTMENT GENERALLY, BROADEN THE SCOPE FOR EXPANSION OF CAPACITY AND RAISE CONFIDENCE. AND, FINALLY, FROM A PSYCHOLOGICAL STANDPOINT, IN SOME OF THE STRONGER COUNTRIES THE CONCEPT OF TAKING PART IN A CONCERTED EFFORT RATHER THAN PULLING THE TRAIN ALONE WOULD MAKE THE OECD POLICY MORE ACCEPTABLE, MORE GENERALLY UNDERSTOOD, MORE GENERALLY REALISABLE.

6. (FYI. AT THE CHAIRMAN'S PRESS CONFERENCE, SCHULTZE ALSO STATED THAT DECLARED NATIONAL FORECASTS AND OBJECTIVE FORECASTS WOULD BE EASED IN A CONCERTED EFFORT, SINCE STRONGER GROWTH BY THE OECD AS A WHOLE WOULD REDUCE THE BUDGET DEFICITS REQUIRED BY EACH COUNTRY TO ACHIEVE ANY GIVEN RATE OF GROWTH. WHERE BUDGET DEFICITS IN PARTICULAR ARE A POLITICAL CONSTRAINT, PROBLEMS WOULD BE EASED. SIMILARLY, A CONCERTED EFFORT WOULD TEND TO RAISE THE PROFITABILITY OF INVESTMENT GENERALLY, BROADEN THE SCOPE FOR EXPANSION OF CAPACITY AND RAISE CONFIDENCE. AND, FINALLY, FROM A PSYCHOLOGICAL STANDPOINT, IN SOME OF THE STRONGER COUNTRIES THE CONCEPT OF TAKING PART IN A CONCERTED EFFORT RATHER THAN PULLING THE TRAIN ALONE WOULD MAKE THE OECD POLICY MORE ACCEPTABLE, MORE GENERALLY UNDERSTOOD, MORE GENERALLY REALISABLE.

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TIVES FOR 1978, PARTICULARLY IN THE STRONG COUNTRIES, AND MEASURED AS THE GROWTH PATH OVER THE YEAR, WOULD, IN THE OPINION OF THE EPC, BE CONSISTENT WITH THE CONCERTED ACTION STRATEGY. HE ADDED THAT DELEGATES WOULD TAKE THE RESULTS OF THE EPC DISCUSSION BACK TO CAPITALS AND DETERMINE WHETHER POLICY ACTIONS WERE APPROPRIATE ON THE BASIS OF THE CONCERTED ACTION CONCEPT. END FYI) END LOU

7. THERE WAS GENERAL AGREEMENT, I THINK, THAT THE SECRETARIAT'S SIMULATION IN THE DOCUMENTATION FOR THE MEETING CORRECTLY REVEALS THE ADVANTAGES OF THE POSSIBILITIES OF CONCERTED EFFORT, WHILE OF COURSE IN THIS GENERAL AGREEMENT THERE WAS NOT NECESSARILY AN ACCEPTANCE OF THE SPECIFIC MAGNITUDES AND MULTIPLIERS IMPLICIT IN THE SECRETARIAT'S EXERCISE. NOW WITH ALL THIS AGREEMENT, THERE WAS ON THE OTHER HAND, AS I GATHERED, STILL SIGNIFICANT DISAGREEMENT ABOUT THE SPECIFIC IMPLEMENTATION OF A CONCERTED STRATEGY. THERE WAS DISAGREEMENT ON SEVERAL LEVELS.

-- FIRST, ON WHETHER THE ANNOUNCED ECONOMIC FORECASTS AND OBJECTIVES IN THE STRONGER COUNTRIES, IF REALIZED, WOULD BE SUFFICIENT TO FIT INTO A CONCERTED ACTION SCENARIO. I THINK IT IS PROBABLY CORRECT TO SAY THAT THERE WAS GENERAL, BUT NOT UNANIMOUS, AGREEMENT THAT ON THE BASIS OF LOOKING AT GROWTH FROM YEAR END TO YEAR END THOSE FORECASTS AND OBJECTIVES, IF REALISED, WOULD GENERALLY BE IN THE RIGHT DIRECTION AND WOULD PERMIT SOME ACTION BY OTHER COUNTRIES.

-- SECOND, AS TO THE QUESTION OF WHETHER THE KIND OF CONFIDENTIAL

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GROWTH WHICH HAS BEEN FORECAST AND SET FORTH WOULD LIKELY BE REALISED ON THE BASIS OF POLICY ACTIONS TAKEN TO DATE, THERE WAS EVEN MORE DISAGREEMENT AND SOME SCEPTICISM ON THE PART OF SOME DELEGATIONS THAT THE FORECAST GROWTH WOULD BE REALISED WITHOUT FURTHER ACTION.

-- THIRD, GIVEN THE FACT THAT A NUMBER OF COUNTRIES HAVE ONLY RECENTLY TAKEN ACTION TO STIMULATE GROWTH AND WERE HIGHLY RELUCTANT TO PROMISE ADDITIONAL MEASURES, EITHER ABSOLUTELY OR ON A CONTINGENT BASIS, WHAT THEN SHOULD BE THE ATTITUDE AND POLICY RESPONSE OF OTHER NATIONS IN THE FACE OF THIS UNCERTAINTY?

8. IT SEEMS TO ME THAT THIS SET OF DISAGREEMENTS, NON-
UNANIMITY, COMES IN THE CONTEXT OF A FAIRLY GENERAL
AGREEMENT ON THE PART OF ALL COUNTRIES THAT CONCERTED
DEVELOPMENT, COLLECTIVE EFFORT, IS POSSIBLE AND DESIR-
ABLE AND IT IS RATHER THE SPECIFICS OF WHEN AND HOW
ACTIONS ARE TO BE TAKEN BUT THE DISAGREEMENTS REMAIN.
END CHAIRMAN'S ORAL SUMMARY.
SALZMAN

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